

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



**CORRECTED
FISCAL NOTE**

HB 492 - SB 1811

March 10, 2009

SUMMARY OF BILL: Authorizes the creation of municipal economic development (MED) zones for certain financially distressed communities with populations less than 3,000 people. Authorizes a 50 percent rate reduction for a period of ten years to local option sales tax charged in qualified MED zones, except for when the retail sales involve tobacco products or packaged alcoholic beverages. Requires all sales and use tax revenue collected within an MED zone to be diverted to the municipality in which the MED zone is located. Earmarks such sales tax revenue for implementation of the capital improvement component of the MED zone plan.

ESTIMATED FISCAL IMPACT:

On February 23, 2009, we issued a fiscal note for this bill indicating the following estimated impact:

*Decrease State Revenue – Net Impact - \$858,000/Recurring
Forgone State Revenue – Exceeds \$100,000/Recurring*

Increase State Expenditures - \$142,800/One-Time

*Increase Local Revenue –
Net Impact - \$763,700/FY09-10 - FY18-19/Perry County
\$899,300/Recurring/Beginning in FY19-20/Perry County*

Based on additional information, the fiscal impact of this bill is estimated as follows:

(CORRECTED)

**Decrease State Revenue – Net Impact –
Exceeds \$1,812,100/Recurring**

**Forgone State Revenue –
Exceeds \$100,000/Recurring**

HB 492 - SB 1811 (CORRECTED)

Increase State Expenditures - \$142,800/One-Time

Increase Local Revenue –

Net Impact – Exceeds \$1,588,700/FY09-10 - FY18-19

\$1,899,300/Recurring/Beginning in FY19-20

Assumptions:

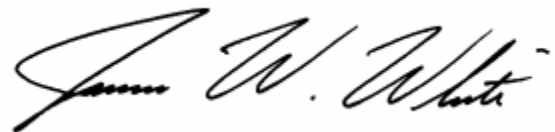
- Given the preamble to this bill, it is assumed that the bill applies to Perry County at a minimum; however, this bill could apply to any financially distressed community with a population less than 3,000.
- According to the U.S. Census, the population of Perry County in 2007 was 7,671 people. As a result, a proposed MED zone could represent approximately 39.1 percent of Perry County ($3,000 / 7,671 = 39.1\%$).
- According to the Department of Revenue (DOR), state sales tax collections received from all of Perry County in FY07-08 were approximately \$2,300,000, including sales tax collected on tobacco products and packaged alcoholic beverages.
- The amount of state sales tax revenue collected from the portion of Perry County that could represent an MED zone is estimated to be \$899,300 per year ($\$2,300,000 \times 39.1\% = \$899,300$). Therefore, the increase of revenue to Perry County is estimated to be \$899,300 per year.
- State sales tax collections derived from all financially distressed communities qualifying as MED zones remain constant in subsequent years under current law.
- An unlimited number of years for which state sales tax collections, derived from qualified MED zones, will be diverted back to MED zones for economic development.
- It is unknown how many other financially distressed communities having populations of less than 3,000 people would qualify as MED zones under this bill. Likewise, any collective amount of state sales tax collections remitted from such communities is indeterminable. However, this additional collective amount of state sales tax revenue that would be diverted from the state to other MED zones is reasonably estimated to exceed \$1,000,000 per year.
- Pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(A), incorporated municipalities receive 4.5925 percent of state sales tax revenue as state-shared taxes. Therefore, the net decrease to state revenue is estimated to exceed \$1,812,100 per year [$\$1,899,300 - (\$1,899,300 \times 4.5925\%) = \$1,812,075$].
- The state will forgo future sales tax revenue as a result of economic development and growth occurring in all MED zones. Projecting forgone state revenue is difficult due to many unknown factors. However,

forgone state revenue is reasonably estimated to exceed \$100,000 per year.

- According to DOR, local option sales tax collections for all of Perry County in FY07-08 were approximately \$730,000.
- DOR indicates that approximately five percent of sales tax collected in Perry County is derived from the sale of tobacco products and packaged alcoholic beverages.
- The amount of local option sales tax revenue collected from the portion of Perry County that could represent an MED zone is estimated to be \$271,200 per year ($\$730,000 \times 95\% \times 39.1\% = \$271,159$). This amount is net of sales tax collections derived from the sale of tobacco products and packaged alcoholic beverages.
- It is unknown how many other financially distressed communities having populations of less than 3,000 people would qualify as MED zones under this bill. Likewise, any collective amount of local option sales tax revenue derived from such communities is indeterminable. However, this additional collective amount of local option sales tax revenue is reasonably estimated to exceed \$350,000 per year.
- Given the 50 percent proposed rate reduction to the local option sales tax rate in MED zones, the decrease of local option sales tax revenue for all MED zones is estimated to exceed \$310,600 per year for ten years $[(\$271,200 + \$350,000) \times 50\% = \$310,600]$.
- The net increase to local government revenue is estimated to exceed \$1,588,700 per year for ten years $(\$1,899,300 - \$310,600 = \$1,588,700)$. This would be for FY09-10 through FY18-19. Following the required ten-year period, and beginning with FY19-20, the net increase to local government revenue is estimated to exceed \$1,899,300 per year.
- One-time state expenditures for computer and software modifications made to DOR tax systems estimated to be \$142,800.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director

/rnc